

JPRS-USA-91-009
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JPRS Report

Soviet Union

USA: ECONOMICS, POLITICS, IDEOLOGY
No 6, June 1991

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30 September 1991

[The following are translations of selected articles in the Russian-language monthly journal SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA published in Moscow by the Institute of U.S. and Canadian Studies of the USSR Academy of Sciences. Refer to the table of contents for a listing of any articles not translated.]

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Current State of World Economy

914K0024A Moscow SSHA: *EKONOMIKA, POLITIKA, IDEOLOGIYA* in Russian No 6, Jun 91 (signed to press 13 Jun 91) pp 3-11

[Article by Anatoliy Aleksandrovich Porokhovskiy, doctor of economic sciences, professor, and deputy director of Institute of U.S. and Canadian Studies; article based on report presented by author at meeting of economic section of Scientific Council of USSR Academy of Sciences on U.S. Area Studies on 5 December 1990]

[Text] In the lifetime of each generation there are times when most people believe that the world is experiencing its most difficult, and sometimes most dramatic years. There is every reason to define the threshold of the 21st century as a turning point in the development of human civilization. This is not simply a matter of calendar dates (the world will soon enter the third millennium of the New Era), but also a result of the appearance and reinforcement of new trends and tendencies that diverge somewhat from the customary pattern of historical events. Obviously, these new developments are not only of an economic nature; they are affecting all aspects of the life of the world community. The confines of this article will allow us to discuss only the world economic implications of current events, in the hope that all other aspects of this extensive topic will be examined in other special works.

Methodological Approach: Survival of the Human Race Or Change of Structures

The results of research in the natural and social sciences depend largely on the methods of analysis. This is not simply a matter of delving into the depths of phenomena. In our case the main thing is probably an understanding of the historical process itself and the role and significance of its current features. Furthermore, the present period is distinctive because the examination of any individual country or region will reveal more specific than general civilizational features. For this reason, the world community as a whole, and the world economy as its material basis, may serve as the object of research.

This methodological approach would seem to reflect the objective realities of today's world. There is no question that it also warrants the proper development in the science of economics.

As we know, Marxist literature concentrates on the structural development of human civilization. This tradition took shape on the European continent, with its series of five structures—from the primitive community to the socialist structure. In other parts of the world this precise separation and succession of different types of societies did not occur. Furthermore, although mankind had experienced more than a thousand big and small wars in its history, the existence of life on earth itself had never been threatened. In the 20th century, scientific and technical progress not only led to the rapid growth of productive forces, but also contributed to the creation of unprecedented destructive forces—nuclear, chemical, and bacteriological. Nature, as an essential factor of production and

normal life, began to need protection itself. In other words, when the 20th century was drawing to a close, mankind had to decide how to preserve life on earth. In essence, the natural historical process of human societal development acquired the kind of qualitative and quantitative parameters in which the people of the world were concerned not with the choice between types of societies and with self-serving demonstrations of the advantages of a particular social system, but with the need to mobilize the efforts of all people on the planet for the preservation of human civilization itself.

If we take this approach to the current period of the natural historical development of human society, we see that our analysis must concentrate on the factors uniting the people of different nations and the basis on which they can find solutions to their problems. Under these conditions, the science and practice of economics must acknowledge the importance of *intrastructural development*, because this is what reflects the adaptation of a social order to the requirements of the times. This presupposes the simultaneous analysis of world economic ties, because it is in this area of relations that the efforts of all countries to solve global problems are manifested.

Obviously, the exacerbation of global problems in itself cannot eliminate conflicts within a single country or in the world community as a whole. Conflicts were and are the sources of social movement and generators of progress. Now, however, the resolution of conflicts is of special importance. People want the whole world to survive. National boundaries do not give anyone any kind of advantages, and ecological anomalies are affecting the flora and fauna and the climate of the entire planet. Whereas each nation once acted on its own, now only the efforts of all nations can secure the future of civilization.

An important part of this methodological approach to the study of the contemporary world economy is the analysis of common human values. The very definition of common human values and their interpretation on different levels—from the individual to the people or country to the world community as a whole—require thorough analysis. As far as our topic is concerned, we must take note of some of the economic aspects of these values and the mechanism of their realization on the global level.

There is no question that the preservation of life on earth and the rights of the individual of any color in any country, the elimination of such disgraceful occurrences as hunger, poverty, illiteracy, and epidemics, and other such causes cannot fail to unite people, but all of these problems, with the exception of the threats of nuclear and ecological disaster, existed long before the second half of the 20th century. This means that the world has not only failed to solve old problems, but has also acquired new ones. This is no coincidence. After all, the market priorities by which the developed countries and many of the developing states were usually guided were not aimed directly at the realization of common human values. This is why the world community is becoming increasingly aware of the need for some mechanism to resolve the contradiction between the

need for the global affirmation of common human values and the still diverging interests of countries, peoples, and individuals.

The economic basis of the world community rests on market principles. These principles, in turn, are propped up by the interests of the owners of capital, goods or money. In other words, the adaptation of common human values to a world economy permeated with market structures and motives cannot occur suddenly and will take a long time. Furthermore, the time frame will depend not only on economic factors, but also on the total group of social factors on different continents.

In this context, we have to wonder whether we can examine the current problems of civilization from the standpoint of our Marxist scientific heritage. In view of the fact that the fundamental principles of the Marxist view of social development are the beliefs that the development of mankind is a natural historical process and that contradictions are generators of progress, there is no question that this approach meets all of today's requirements. Furthermore, the fundamentals of this approach do not conflict with progressive world social thinking. We must admit, however, that the conditions in which the "natural" laws of the development of human civilization operate have changed considerably on the eve of the third millennium. This is affecting the results and the forms of development, and this could not have been foreseen from the tendencies taking shape up to the middle of the last century. The succession of different structures and the comparison of social systems have merged in a single channel—the channel of the preservation of mankind. Now it is already important to know not only how mankind develops, but also how life on earth can survive and flourish.

Non-Economic Factors of World Development

Economic factors have always played the decisive role in the establishment and development of the world economy, but factors of a non-economic nature—ideological, military, and others—have acquired greater significance at certain periods in history. The role of non-economic factors was particularly distinct in the 20th century.

We know that the world capitalist economy took shape before the beginning of World War I. It marked the start of a new stage of capitalism, in which capital and international division of labor united the economies of separate countries in a single world economy. Economic and colonial dependence were closely intermeshed at that time, laying the foundation for the inequality of countries and peoples in the world economy. This is an important point because capital did not strive to release oppressed people from their colonial bonds even in a market-based economy. The initial positions of the countries making up the world economy at the beginning of the 20th century were reflected clearly in the distribution of "roles" among national economies in subsequent years.

The ideological factor was particularly distinct in the development of the world economy after October 1917, when the economic development of Russia followed the

socialist pattern after the revolution. The economy of the USSR was already dropping out of world economic development, so to speak, in those years by choosing to rely on internal resources. This isolation reached its peak after World War II, when the countries of Eastern Europe and several Asian states made the transition to socialist principles of development. The socialist countries formed an economic complex in which cooperation with one another superseded cooperation with the countries of the capitalist world economy. The struggle for self-sufficiency, for survival, and for the consolidation of defensive capabilities led unavoidably to the growth of the armed forces and the development of new types and systems of weapons. The state of "cold war" naturally stimulated military confrontation and led logically to ideological confrontation. Much of the burden of maintaining this confrontation on the socialist side was shouldered by the USSR. As a result, the normal course of social reproduction was subjected to excessive pressure by the military-industrial complex, which essentially subordinated all aspects of social life to its own needs. Furthermore, what the socialist countries referred to as "reliable defense" was seen as a "threat from the East" in the capitalist countries.

It was this "threat from the East" that made the United States' partners more agreeable in the resolution of various problems, including the formation of military and economic groupings of capitalist countries in various parts of the world. Of course, military-ideological factors were accompanied in those years by the objective process of the internationalization of economic affairs and the integration of production. For this reason, it would be wrong to assume that non-economic factors prevailed in all cases. One example of the predominance of economic interests was the Treaty of Rome, which was signed in 1957 and marked the creation of the "Common Market" in Europe. Economic integration began to develop within the confines of the NATO military-political alliance and now includes the 12 countries which will make up a single economic territory, covering most of Western Europe, on 1 January 1993.

Although military-political and other non-economic factors were "involved" in international economic relations in various parts of the world (the Near and Middle East, Latin America, Africa, and others), they were most apparent in East-West relations, the relations between socialist and capitalist countries. Whereas private business prevented excessive preoccupation with ideological priorities in the capitalist economy, it was these priorities that frequently predetermined the nature and volume of economic ties between countries and within countries in the socialist system. CEMA is a good example of this. In view of the fact that any non-economic factor can distort the normal course of the reproductive process in the economy to some degree by radically increasing costs and reducing effectiveness, it is easy to imagine what the military-ideological confrontation between the East and the West cost the world as a whole and its different regions.

In real life, economic growth does not fit the ideal pattern. It is usually influenced by various non-economic factors—

geographic, climatic, demographic, national, etc. Whereas the influence of these factors can never be completely avoided, military and ideological parameters depend wholly on the state of international relations. Today, now that the "cold war" is past history, now that the confrontation between the two military-political blocs is coming to an end in Europe, and now that international tension is being replaced by a "new world order," signifying a move from ideological and military confrontation to economic interaction and cooperation, a new situation is taking shape in the world economy. One of the new features is the predominance of purely economic factors in world development. The main one is competition. This does not mean that it was insignificant in the past, but there is an unprecedented atmosphere for competition in the 1990s.

New Round of Competition in the Multipolar Economy

From the economic standpoint, the creation of the "new world order" signifies nothing other than the restoration of market patterns of world development. Market priorities are taking precedence in methods of economic management in almost all of the countries of the planet. Because competition is the focal point of the market mechanism, its scales are growing immeasurably. Furthermore, competition within individual countries is being affected more and more by world competition, which is becoming an integral factor in the development of any national economy. This is an indication of the scales of the increasing importance of competition in world development.

In addition, the stronger competition in the second half of the 20th century has been related directly to the scientific-technical revolution. It was this revolution that contributed to the radical augmentation of the capabilities of various companies and even individuals in the use of new technologies, substitute goods, new sources and types of energy, and new methods and systems of management and personnel training and retraining. It was on the wave of the scientific-technical revolution that new means of transport and new types of communication made their appearance and timely and reliable information became an extremely important element of competitiveness. In other words, both the basis and the sphere of competition grew.

It is possible, however, that the removal of military-confrontational and ideological restrictions from international economic relations might be a more important factor augmenting the role of competition. The ally commitments of Western countries in the resistance of the "threat from the East" have influenced the competition between companies in these countries.

In other words, neither Japan nor Western Europe will be concerned about the possibility of military confrontation with the USSR in their future economic relations with the United States. In the past, the United States' most convincing argument in economic disputes with its European and Japanese opponents was the reminder of their solidarity against a "common enemy." Now that this argument is disappearing, competition of a purely economic nature will come into full play.

At this point it would be impossible to overlook the events of the middle of the last century, when the industrial revolution freed competition of many restrictions and created favorable material prerequisites for its development on the global level. Now, on the threshold of the 21st century, the scientific-technical revolution is opening up new horizons for competition, and its depth and scope are becoming an extremely important element of the "new world order," excluding military-ideological confrontation. The elimination of non-economic confrontation, however, will not mark the beginning of a completely idyllic state of general "fraternization." The economic cooperation on a market basis that is taking the place of non-economic confrontation can only be developed under the active stimulating influence of competition. This will entail rivalry, struggle, and the search for effective decisions in the presence of many unknown quantities.

Although the world economy was originally developed in market channels as a system of free enterprise—i.e., the participants in economic relations were not states, but individual companies, firms, associations, etc.—the "national uniform" or "regional origins" of a company nevertheless played the decisive role in the ordering of economic priorities and in the establishment and maintenance of competitive positions. As the competition in the world arena grew more intense, this factor acquired increasing significance in the development of international economic relations.

We know that three centers of economic rivalry took shape in the world capitalist economy in the second half of the 20th century—the United States, the European Common Market, and Japan. The socialist countries stayed out of this competition. Despite all of the successes of the West European countries and Japan, the United States retained its leading position. Experts have even suggested that the United States is the locomotive of the world economy and a superpower in the economic as well as the military sense. All of this allowed the United States to direct tendencies in world development and to give them its own interpretation. We could even say that the American economy served as the focal point of the world reproductive process.

On the threshold of the 21st century, however, new tendencies can be seen in the development of the world economy. The United States is losing influence as the positions of Japan and the EEC grow stronger. This is reflected in various indicators. The 1988 indicators of per capita gross domestic product in U.S. dollars, for example, were the following: 27,800 in Switzerland, 24,300 in Iceland, 23,300 in Japan, 21,400 in Norway, 21,200 in Finland, 21,100 in Sweden, 21,000 in Denmark, 19,600 in the FRG, 19,500 in the United States, and 18,600 in Canada. As we can see, the European states are predominant in the top ten countries of the world. Furthermore, eight of the ten largest commercial banks in the world in 1989 were Japanese. Two Japanese concerns, Toyota Motor and Hitachi, ranked sixth and ninth respectively among the ten largest industrial companies in the world in 1989.

According to the forecasts of experts on the staff of EUROMONEY magazine, by 1999 the gross national product of the EEC countries will exceed the U.S. GNP. Furthermore, Italy will have the biggest GNP among the EEC countries.¹ Obviously, however, the order in which countries cross the finish line in the year 2000 is less important than the economic atmosphere in which all of this will transpire. Because the United States will not be the only contender for the "conductor's platform," the unipolar orientation of the world economy will gradually turn into a multipolar process. North America, Europe, Japan, and the new industrial nations of the Asian Pacific zone will be the main links in this process. The possibility of changes in the role of developing countries cannot be excluded because the differences between them will continue to influence the speed with which they enter the channels of world civilization.

The USSR and PRC will take their places in the emerging multipolar world economy. The colossal potential of the Soviet market and the existence of resources for harmonious development will make the USSR economy an extremely important factor in world progress. The policy line of an open economy and its gradual inclusion in the world economy on the basis of dynamically developing international division of labor will create, on the one hand, a focal point for the attraction of capital and, on the other, a previously little-known lever of competition. In this context, China's consistent steps to build up its own economic potential will not allow anyone to ignore its strength, especially in the Asian Pacific zone, where various groups are being formed with the active participation of the United States and Japan. The more quickly the PRC is drawn into world economic processes, the more valuable the "Chinese economic card" will be in the balance of power in the Asian Pacific zone and in the world economy as a whole. We could say that the beginning of the 21st century could be the first time in the history of human civilization that a single worldwide economic territory will begin taking shape, and the world will then have several economic poles in addition to its two geographic poles. The very fact that the world economy is becoming a multipolar entity attests to the establishment of new conditions for stronger competition and the attachment of greater importance to it.

Are Weak Partners Convenient in Economic Cooperation?

Any kind of competition presupposes winners and losers, but this is only a temporary distribution of roles. Genuine competition is possible only between partners of equal strength in business. Differences in the "economic weight" of partners predetermine their roles.

If we examine economic cooperation in the broader context, we can suggest at least two cases in which it would be inconvenient to have weak partners. First of all, a weak partner will not stimulate the heightened effectiveness of production or its ultimate profitability. Second, a weak partner often uses ecologically harmful production technology, which will disrupt the necessary balance of nature in the country or region concerned and eventually in the

whole world. Therefore, from the general economic and ecological standpoints, it is convenient to "pull up" all participants in economic cooperation to the level of the strongest. This is also consistent with common human values.

If we examine the USSR's position in the world economy from this standpoint, we can assume that it will be convenient for the United States, the EC, and Japan to have a strong economic partner in the USSR. Furthermore, the developed countries know that a mixed economy is being cultivated in the USSR on a market basis and that this is reinforced by political stability. Now that the migration of capital has taken on colossal dimensions in the world economy, the factor of political stability is of the utmost importance in the consolidation of world economic ties.

The future of any partner in a market economy depends primarily on his own efforts. This is why the interest of Western partners in a strong Soviet economy is not enough in itself to turn our state of crisis into economic recovery and growth. Only the effective mobilization of all internal resources, with maximum effort and output in each workplace, will create the prerequisites for our rise to world levels of labor productivity, production factors, and quality of life. The criteria of participation by foreign capital in this process are quite clear and simple—convenience and profitability, and not philanthropic concern about Soviet interests.

It will take time for the USSR economy as a whole to reach the level of the economies of the developed countries under these conditions. Furthermore, we must not forget that foreign companies and foreign capital will always put their own interests first. This is why it will take intelligent and resourceful statesmanship to ensure that the satisfaction of their interests consistently serves the economic growth of the USSR instead of the perpetuation of its underdevelopment. This means that the USSR's inclusion in the world economy is a two-way street, where the traffic cannot be controlled by the market alone.

Legal Framework of Market System

The history of the market is also the history of economic law to a certain extent. As market priorities are reinstated in the entire world economy, there will be an increasing awareness of the need for the appropriate international framework of economic law. Although the fundamentals of the laws of business in different countries differ only slightly, national and other features still influence the development of world economic ties. In this area as well, national interests must not be overlooked.

We know that under the conditions of the rapid growth of productive forces and the concentration and internationalization of production, it is not easy for the market and competition to withstand the pressure of the factors restricting them. Only the state can serve as the guarantor of the market and competition in a national economy through a system of economic law, and as the guarantor of the rights of the individual—the businessman, the producer, and the consumer. In this context, we could say that

the legal framework of business is one of the main elements of the market economy mechanism. Each partner in the market economy not only knows his own rights and capabilities, but also has certain obligations to partners, society, and the state. Although it would certainly be wrong to say that economic law has reached a state of perfection in the Western countries, because the development of business requires the development of the corresponding legal standards, we must realize that it was the legal framework that fostered the general display of industriousness and enterprise for the satisfaction of national interests.

Although global economic ties are developed primarily between individual companies, banks, and establishments, the national features of business sometimes have a decisive effect on the intensity of economic conflicts. The national priorities of different states often conflict with the common market patterns of economic relations. This is why international economic law has to take the interests of individual companies and of whole states in the world economy into account. Consequently, the protection of the market and competition is more difficult on the global level than within each national economy.

The history of world economic ties testifies that it is not at all easy to achieve generally advantageous, open competition in all areas of business. We know, for example, how difficult it is for the GATT countries to reach a mutual understanding. The latest round, the "Uruguay round," of GATT talks, which began in 1986, has still not come to an end, and no one can predict when or how compromises will be found to settle all of the controversial issues, primarily the complete elimination of all external and internal barriers in agricultural trade. The EEC countries still cannot comply with the U.S. insistence that they stop subsidizing their farmers and the export of their products.

As we can see, even the developed Western countries with an open economy, which are involved to a considerable extent in world economic ties, are not ignoring their own economic security. They are striving to satisfy national interests, to consider the wishes of their own population, and to avoid excessive domestic social friction. Furthermore, whereas national military security was the main concern in the atmosphere of international tension, the demilitarization of the world community is assigning increasing importance to national economic security. The integration and internationalization of production are not eradicating the problems of economic security. The reason is that the interests of various countries are not directly related to the market organization of the economy or to the commercial secrets characteristic of any business entity, but to national and historical traditions, to the sociopolitical structure of society, and to demographic and other trends in the development of the individual state.

If we examine the process of the inclusion of the USSR economy in world economic ties under the conditions of the "new world order" from this standpoint, the guarantee of national economic security should become one of the most crucial issues. In view of the fact that the problem of

national security is equally pertinent to all countries, its legal reinforcement could also be accomplished on the international level. Therefore, world market ties and global competition on the one hand, and international security and national economic security on the other, could be secured with the active participation of each state realizing its own interests and with the appropriate international legal framework based on intergovernmental legal and economic institutions. All of this presupposes the growth of the influence and significance of international economic organizations, both existing ones and those established in the future for the resolution of new problems in the developing world economy.

Restructuring of World Economy

The gradual inclusion of new links in the world economy—the USSR, the PRC, the countries of Eastern Europe, and others—and the formation of integrated groups in various parts of the world are certain to change the structure of world economic ties. How will this happen?

Traditionally, the elimination of accumulated structural disparities and the restoration of a balance in the market economy on a new production base and with a new economic structure is accomplished with the aid of a cyclical crisis. In recent decades economic crises in the leading developed countries, especially the United States, have coincided with world recessions. This is no coincidence, because these countries have the largest share of the world output of goods and services. The events of 1991, when signs of crisis were seen in England and other countries following the recession in the United States, are no exception to the rule. In other words, even in the last decade of the 20th century the cyclical nature of the reproductive process has retained its role as the main lever of the periodic restructuring of national economies and the world economy.

Obviously, the expansion of the world economy as a result of the inclusion of the national economies of the USSR, the PRC, and other countries cannot be categorized as an ordinary restructuring. As a result of this, problems of a non-cyclical nature will arise in world reproduction. Furthermore, international division of labor is just beginning to conquer the new economic territory, which is only approaching global parameters in its economic mechanism and technical level. For this reason, we can assume that the inclusion of the new national economies in the world cyclical process of reproduction will occur as internal economic prerequisites mature and as the world economy itself is modified. After all, countries of huge dimensions with colossal human resources and raw materials will become elements of the world economy.

It would probably be premature to assume that purely economic factors will prevail in world development in the beginning of the 21st century. The conflicting national interests of various countries will probably prevent the quick formation of a stable and balanced economy on the global level. The market basis of this kind of economy and the priorities of free enterprise, achieved as a result of fierce competition, are not conducive to smooth and

crisis-free development. The reconciliation of interests on all levels and the determination of the optimal relationship between different groups of capital, branches, and national economies can only be accomplished cyclically, and this will remain the "natural" method of world economic development in the 21st century as well.

Footnotes

1. EUROMONEY, Special 20th Anniversary Supplement, June 1989, pp 4, 6.

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NATO Military Policy and European Security

914K0024B Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 6, Jun 91 (signed to press 13 Jun 91) pp 12-19

[Article by Vladimir Borisovich Kudryavtsev, candidate of historical sciences]

[Text] I would like to begin this article by objecting to the common allegations by members of conservative groups in our country that the representatives of the new thinking frequently arm themselves with ready-made Western judgments and arguments instead of having their own views, which must differ from Western ones. They are obviously confused. It is true that we must have our own views and judgments, but this certainly does not mean that they have to be the direct opposite of the views of Western analysts.

While many of our social scientists spent the period of stagnation justifying and "substantiating" decisions that had already been made by the country's political leadership, decisions which are now acknowledged to have been mistaken—i.e., in other words, while they were conducting unscientific activity—analysts in the United States and in the other leading NATO countries were searching for the real causes of international tension and crises, but certainly without neglecting their own interests in their conclusions and suggestions. Our research is only beginning to climb to the same level today.

The propagandistic clichés of the postwar period about the purely aggressive and adventurist goals of Western military policy and about the West's preoccupation with the sole objective of plunging the world into thermonuclear disaster sound silly today.

It is completely obvious that no one ever wanted to do this. From the very beginning the nuclear arsenals were intended primarily as deterrents, and this is not the slightest bit inconsistent with the existence of operational plans for the use of nuclear weapons: Without them, deterrence would have been ineffective.

Analyses of the military policy of any state, not to mention a whole military-political alliance, are impossible without examinations of the causes and circumstances of decisions and the motives for making them. This is particularly true of Europe, which was the center of the military confrontation between the two blocs for a long time.

USSR Military Policy: Perception of the Other Side

In the simplest terms, NATO's arguments in support of its line in military-political affairs are approximately the following: NATO was created as a counterbalance to the aggressive intentions of the Soviet Union and its satellites. All past experience in communication with the USSR proves that it cannot be trusted. The Soviet leaders would resort to anything in their efforts to rule the world and can only understand force. For this reason, they always had to be dealt with only from a position of strength. The West's strength consisted in its technological superiority.

Most of our people react with hostility to the talk about the elements of aggressiveness in earlier USSR policy. There is nothing surprising about this. All of us were taught for decades that our state-political habitat was surrounded by malevolent forces. Sometimes it is quite difficult to give up stereotypes and judge events impartially. Furthermore, we still have a strong sense of our own innocence and a belief that all of our actions in the past and present have been justifiable. Nevertheless, we have to look at reality through the eyes of our opponents.

We have to ask ourselves the following question: Did any of our country's actions in the international arena provide grounds for the description of the Soviet State's intentions as aggressive? If we analyze the situation objectively, we can see that these grounds were more than ample, especially during the "Stalinist period" of our development. The disgraceful bargain with Hitler for the division of spheres of influence in Europe and the resulting partition of Poland and USSR attack on Finland undermined the already shaky trust in our country for a long time. The subsequent policy of using military force to obliterate processes objectionable to "Big Brother" in the East European countries (the GDR in 1953, Hungary in 1956, and Czechoslovakia in 1968) and in other regions (Afghanistan, for example) was viewed as a sign of aggressiveness by NATO and by the West as a whole. This stereotype was also reinforced by our general conceptual military-political precepts of those years, envisaging the possibility of winning a nuclear war, and by the actual practice of building up our military potential to the maximum.

Today we are clearly aware of the importance of taking the interests and concerns of the other side into account—on a mutual basis, of course, to avoid errors. Our official assessments of the Western line of behavior always received extensive coverage in the Soviet news media, and we often used arguments and evidence of the following type: "It would be impossible...not to see the groundlessness of the North Atlantic Treaty's anti-Soviet motives, because everyone knows that the Soviet Union has no intention of attacking anyone and no intention of threatening the United States of America, Great Britain, France, or any other party to the treaty."¹ On the other hand, the general public in our country knows almost nothing about Western assessments of our own defense efforts. Some indicative conclusions were drawn in the communique of a session of the NATO Defense Planning Committee (for

propaganda purposes, our news media usually refer to it as the Military Planning Committee) in Brussels on 17-18 May 1977.

It says, in part, that "the armed forces of the Warsaw Pact are acquiring increasingly offensive features and are capable of a show of Soviet strength on the global level. Soviet nuclear forces are still being perfected with new MIRV'ed missile systems, including the anticipated deployment of the SS-20 mobile intermediate-range missile, capable of destroying targets anywhere in Europe and beyond. The growing potential of the Warsaw Pact in the non-nuclear sector, however, is especially striking. In particular, Warsaw Pact ground forces have sufficient potential for a broad-scale invasion in Europe without additional reinforcements.... The continuous growth of military strength is maintained in the Soviet Union by the allocation of an estimated 11-13 percent of the gross national product for defense needs (almost three times as much as the average NATO indicator) and an annual increase of around 5 percent in real terms in defense spending. The Soviet Union's huge investments in military R & D are beginning to undermine the qualitative advantage NATO had for so many years in military hardware."²

This document clearly indicated the areas of heightened concern to NATO members, areas which could be called "high-risk zones." They included, on the one hand, the Soviet nuclear build-up covering the entire range of delivery vehicles, including the deployment of the new intermediate-range missiles that have now been eliminated by the INF Treaty. It is significant that the NATO Council "dual-track" decision on Euromissiles was made just two and a half years after this document was compiled, in December 1979. On the other hand, there were worries about the growth of Soviet conventional arms potential, securing the possibility of broad-scale offensive operations.

Of course, we could argue that everyone was engaged in a military build-up at that time. This is true, but a comparison reveals that after we announced that we had achieved strategic parity with the United States, our military-industrial machine actually picked up speed instead of decelerating, in spite of the developing processes of detente in the 1970s. The "Brezhnev period" was connected with the vigorous growth of all components of military strength. Suffice it to say that the number of Soviet armed forces personnel rose, according to Western data, from 3.3 million (140 divisions) to 5.5 million (208 divisions). The number of tanks rose from 35,000 to 50,000.³ Besides this, Soviet arms were sent in a veritable stream to all types of dictatorial regimes, capable of taking aggressive actions against their neighbors. In particular, Iraq obtained an impressive quantity of modern Soviet T-72 tanks in addition to other arms. These processes reached their peak when our troops were sent to Afghanistan.

An analysis of NATO documents of the 1970s and 1980s indicates that the unpredictable and largely contradictory actions of the USSR had a definite effect on NATO policy, including its policy in the military sphere. The communiqué of a NATO Council session in Washington on 30-31

May 1978, for example, said that "after studying the present situation and tendencies in the USSR and other Warsaw Pact countries, the council concluded that members of the alliance should remain united and vigilant and maintain their defenses at the necessary level to counteract the offensive potential of the Warsaw Pact while promoting the further development of detente...." The allies reaffirmed their determination to strive for the most constructive and positive relations possible with the Soviet Union and other East European countries, because they saw this as an essential condition for international peace.⁴

The long-range defense program approved at the same session contained some practical advice for NATO: "The ability of Warsaw Pact forces to begin offensive operations after a shorter period of preparations than in the past means that NATO forces have to be able to respond quickly with the use of maximum combat potential. For this reason, NATO forces must consolidate their defensive potential in several areas, especially their anti-tank units, modern anti-aircraft systems, and chemical warfare defense systems."⁵

Therefore, all of the military undertakings of NATO members were intended to keep the Soviet party and governmental staff of those years from trying to set the USSR's excessive military potential in motion for the purpose of including the entire European continent in its sphere of influence and control. This is confirmed by documents stating the views of NATO military and political leaders on military policy and military organizational development.

Doctrines and Their Implementation

The military-political doctrine of "flexible response" that NATO adopted in 1967 officially envisaged the prevention of a Soviet (or Warsaw Pact) invasion of Western Europe with the threat of the escalated use of tactical, intermediate-range, and strategic nuclear missiles if conventional defenses should turn out to be ineffective. There was an emphasis on the consolidation of defenses with conventional armed forces and the development of anti-tank systems. The structuring of NATO troops in accordance with the theory of "front-line defense" met the same criterion.

The NATO troops were originally deployed in a single echelon along the line of confrontation between the two alliances in Europe, in contrast to the triple-echelon deployment pattern of the Soviet troops, which gave the "Atlanticists" another reason to talk about the purely defensive nature of NATO's military doctrine and practices and about the aggressive intentions of the Warsaw Pact.

The 1970s were marked by detente. This was not inconsistent with NATO's main objective of those years: stronger defense on the one hand and better relations with the East on the other.

Several agreements were concluded in the military-political sphere, laying the basis for possible advancement in the future.⁶ The American idea of arms control, which

lay at the basis of the participation by the United States and its allies in talks with the East, was a logical extension of the counterforce strategy, which was effectively our country's position as well. Nevertheless, we criticized the Western position and countered it with the Soviet idea of disarmament. There is no question that disarmament is a good thing, but this raises the perfectly legitimate question of whether disarmament could have been effective without the preliminary establishment of arms control. Obviously, this was a clear case of ideological excess.

There was also another important point. The USSR's deployment of the two-stage mobile SS-20 missiles with a range of 4,400 kilometers (according to Western data, the design of the missile supposedly allowed for the addition of a third stage, which would have increased the range to the strategic class) at the end of the 1970s was inconsistent with the very spirit of the SALT process, the second phase of which was nearing its conclusion, and largely nullified the successes of detente in the first half of the 1970s.

The so-called "Brezhnev doctrine" in its broader interpretation was a more active stimulator of the growing East-West confrontation in the "Third World" in those years. Prominent American researcher M. Mandelbaum, an associate of the Council on Foreign Relations, presented a brief but thorough description of this doctrine, saying that "if a communist government took control in any country, its removal had to be prevented at any cost."⁷ In general, the ideological incompatibility of the Western and Soviet views of the history of the developing countries was the main reason for the military-political confrontation between the two systems in the "Third World" and was one of the main factors determining NATO's military policy.

Although the events in Angola and other "hot spots" of that time undermined trust in our country, they could not completely eradicate the positive tendencies toward stronger confidence in the relations between the blocs and the general improvement of the international climate. They were seen by the West as an unavoidable and somewhat necessary evil in the overall context of the Brezhnev regime's policy line, and not as extraordinary events necessitating radical changes in the usual line of behavior of the entire Western community.

Judging by all indications, the operation in Afghanistan came as a surprise to NATO. It obviously did not expect it. It confirmed its worst predictions that "the Russians can never be trusted completely." We have to admit that the conclusion that was drawn then in NATO circles was completely logical: "If the Soviets are willing to take this kind of action, what will keep them from doing the same thing somewhere in Europe?" It was precisely this that resulted in the "most important Soviet-American regional conflict...over the desire for supremacy."⁸

The almost forgotten "cold war" thesis of the "Soviet military threat" was revived in its entirety. In the late 1970s and early 1980s large segments of the American public were convinced of the need to up-arm America and NATO. Public opinion polls indicated that 60 percent of

the men surveyed and 80 percent of the women wanted the United States to be militarily superior to the USSR. These processes coincided with the beginning of Ronald Reagan's presidency. The international political lexicon was soon full of such phrases as "evil empire" and "crusade against communism." All U.S. and NATO military policy in the early 1980s conformed to this pattern.

The new NATO strategy of "follow-on forces attack" (FOFA), announced in 1984 and commonly referred to as the "Rogers doctrine," envisaged the use of state-of-the-art, highly efficient conventional arms and systems. The vigorous perfection of strategic potential began in the United States. The new B-1 strategic bomber, capable of carrying long-range cruise missiles, became part of the Air Force. Questions connected with the development and deployment of the new Midgetman ICBM's (with single warheads or two MIRV's) and MX missiles (10 warheads) were discussed widely. The U.S. Navy acquired the new Trident submarine missile systems, the deployment of Pershing II missiles in five NATO countries began, and the so-called "Strategic Defense Initiative" (SDI) was announced.

New Approaches

The USSR's resolute renunciation of various types of dubious doctrines like the "Brezhnev doctrine" after 1985, the actual, rather than declarative, adherence to the principle of the freedom of all nations to choose their own patterns of development, the firm policy line of actual, rather than propagandistic, disarmament, and the defense of the ideas of reasonable sufficiency led to changes in NATO's approach to security issues, especially in Europe. This provided an opportunity to resume the disarmament talks that had been broken off during the period of political confrontation. The Soviet-American Treaty on the Elimination of Intermediate- and Shorter-Range Missiles was signed. The text of an agreement on the reduction of Soviet and American strategic offensive forces was drafted. The all-Europe process displayed new facets. The Stockholm forum on confidence-building measures reinforced the basis of Europe-wide military detente.

The treaty on conventional armed forces in Europe, which was signed in November 1990, the joint declaration of the 22 Warsaw Pact and NATO states, and the Paris Charter for a New Europe, approved by the leaders of 34 CSCE countries, have established a unique opportunity for fundamentally new bases of European security. All of this suggests that the NATO countries will agree to actual disarmament in an atmosphere of stronger international trust and a lower level of confrontation.

Positive tendencies can be seen in the defense planning of the United States, the main NATO country. In particular, the proposed move from 2-year to 5-year defense spending plans will include the reduction of defense spending to 4 percent of the GNP by 1995, a record low comparable to the pre-war period.⁹

At the same time, the data cited by Secretary of Defense Cheney suggests that there is some concern in NATO

circles about the modernization of strategic nuclear forces that is now taking place, in his opinion, in the USSR, particularly the deployment of new ICBM's, including SS-25 missiles on railway platforms and SS-24 missiles on railway platforms and in silos, and the new model of the SS-18 missile.¹⁰ Obviously, only the mutual consideration of interests and concerns can lead us out of the "realm of suspicion" into the "realm of security and stability."

The radical changes in Soviet approaches to international affairs and the rapid changes in the East European countries created the prerequisites for the North Atlantic alliance's reassessment of its military policy for the next few years. The London session of the NATO Council on 5-6 July 1990 was a noteworthy event in this context. It was attended by heads of state and government and it was here that the declaration on the transformation of the North Atlantic alliance was adopted.¹¹ The declaration sets forth NATO's plan of action following the withdrawal of Soviet troops from Eastern Europe and the implementation of the treaty on conventional forces. It says that the structure of the alliance's combined forces and its strategy will undergo radical changes and that NATO will do the following:

deploy reduced and reorganized regular forces with a high degree of mobility and multipurpose capabilities, so that the "leaders of the alliance can decide how to respond to a crisis with maximum flexibility";

rely more and more on a multinational corps consisting of national subunits;

reduce the operational readiness of regular units and lower the requirements of combat training and the number of exercises;

rely more on the ability to augment forces "if and when necessary";

retain the "proper combination of nuclear and conventional forces based in Europe and modernize them if necessary" in the foreseeable future.

The declaration stresses that no NATO weapon will ever be used for any purpose other than self-defense and that the alliance will strive for the "lowest and most stable level of nuclear forces needed to guarantee the prevention of war."

The document states the intention to draft a new military strategy for the alliance, presupposing a move from "front-line defense" to reduced front-line presence wherever necessary, as well as changes in the doctrine of "flexible response," which would reflect the weaker emphasis on nuclear weapons. Several steps will also be taken to institutionalize the all-Europe process.

The London NATO declaration effectively states the principles of the alliance's military policy at a time of declining international tension and defines the general criteria of the alliance's military strategy. The statements about the role of nuclear weapons in this strategy, however, have striking political implications: Although their functions might

change, they will be kept in readiness. This suggests that the "Atlanticists" have not completely overcome their "cold war" stereotypes.

What Is Impeding Further Progress?

At the December 1990 session of the NATO Council, the "Atlanticists" agreed to monitor the strict observance of the treaty on conventional armed forces in Europe by all parties, particularly to ensure that the Soviet Union does not delay in solving serious problems connected with the terms and interpretation of the treaty (this was named as the most important prerequisite for its quick ratification).

This is a reference to the recent controversy in our country over this treaty. Its provisions are being criticized severely from various sides. Some people have even suggested that signing the treaty was one of the many Soviet foreign policy errors of recent years. Poorly substantiated calculations and comparisons in the press have little to do with the facts. The most shocking reaction, however, has been the appeal to our parliament to refuse to ratify the treaty, which will be of no help whatsoever in maintaining normal relations on the European continent. Other actions of this type were the broad-scale transfer of many of our arms to the other side of the Urals and the arbitrary transfer of three infantry divisions to the Navy. These are the reason for the confusing statistics and the related political and moral damage. It seems obvious that all of this can only hurt the cause of Europe-wide disarmament. In fact, the previously mentioned December communique of the "Atlanticists" announces the intention to propose new measures to strengthen security and stability, including the limitation of the conventional armed forces personnel of some countries and consequent additional reductions in offensive potential in the zone covered by the treaty.

At the same time, NATO's current perception of the nature of threats to the alliance also warrants consideration. The previously mentioned NATO Council communique of last December says that the threats the countries of the alliance must deal with in Europe today are connected less with the possibility of deliberate attacks on allied territory by former adversaries than with the unpredictable strategic consequences of the instability that could result from the widespread political and economic changes of the present time. The communique says that the establishment of conflict-free relations will not release NATO from its obligation to counterbalance whatever remains of the Soviet Union's impressive military potential. In precisely the same way, the document states, the possibility of threats to the security of allies in other regions cannot be excluded.

In conclusion, it must be said that the prospects for European security will depend largely on the progress of democratization in our country. The main question today is whether the positive changes will prevail once and for all. People in the West are watching processes in the USSR carefully. In particular, the possibility of a rightward shift is the subject of lively debates there. This would have particularly negative effects on the future of Europe and

would escalate tension on the continent and in the rest of the world. There is the hope that things will turn out well.

It is completely obvious that the further consolidation of European security is the responsibility of all parties to the CSCE processes. The Paris meeting provided excellent guidelines for advancement in this direction. It will be extremely important to follow them.

Footnotes

1. "USSR Government Memorandum on North Atlantic Treaty of 31 March 1949," PRAVDA, 1 April 1949.

2. NATO REVIEW, 1977, No 3, pp 24-27.

3. SUEDEDEUTSCHE ZEITUNG, 7 March 1989.

4. NATO REVIEW, 1978, No 4, pp 28-29.

5. Ibid., pp 29-31.

6. These agreements included the Treaty on the Prohibition of the Emplacement of Nuclear Weapons and Other Weapons of Mass Destruction on the Seabed and Ocean Floor (11 February 1971), the Convention on the Prohibition and Destruction of Chemical and Bacteriological Weapons (10 April 1972), the Treaty Between the USSR and the United States on the Limitation of Anti-Ballistic Missile Systems (26 May 1972), the Interim Agreement Between the USSR and the United States on Certain Measures With Respect To the Limitation of Strategic Offensive Arms (26 May 1972), the Basic Principles of Relations Between the USSR and the United States (29 May 1972), the Agreement Between the USSR and the United States on the Prevention of Nuclear War (22 June 1973), the Protocol to the ABM Treaty (3 July 1974), the Treaty Between the USSR and the United States on the Limitation of Underground Nuclear Tests and the protocol to it (3 July 1974), the Treaty Between the USSR and the United States on Underground Nuclear Explosions for Peaceful Purposes and the protocol to it (28 May 1976), the Convention on the Prohibition of the Military Or Other Hostile Use of Means of Influencing the Environment (18 May 1977), the SALT II Treaty (18 June 1979), the Convention on the Prohibition of Inhumane Weapons (1981), and several other documents.

7. FOREIGN AFFAIRS, Spring 1989, p 20.

8. Ibid.

9. "Department of Defense, FY 1991 Budget. A Briefing by R. Cheney, Secretary of Defense," Washington, 1990, p 7.

10. Ibid., p 3.

11. NATO REVIEW, 1990, No 4, pp 32-33.

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IMF Today and USSR Interests

914K0024C Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 6, Jun 91 (signed to press 13 Jun 91) pp 20-28

[Article by Dmitriy Vasilyevich Smyslov, doctor of economic sciences and lead scientific associate at Institute of World Economy and International Relations]

[Text] Last year the managing director of the International Monetary Fund (IMF), M. Camdessus, visited the Soviet Union for the first time since the IMF was founded. He conducted a series of talks with prominent statesmen in our country.

He came to Moscow for two reasons. First of all, by the terms of an agreement concluded at the conference of the heads of state and government of seven leading Western countries in Houston (United States) in July 1990, the IMF and several other international organizations were supposed to analyze the state of the Soviet economy and draft proposals on the nature of assistance the West might offer the Soviet Union in carrying out the reform program (the results and conclusions of this work were published at the end of the year). Besides this, the terms and possibility of the USSR's membership in the IMF were discussed in general terms during the visit. With the consent of the IMF leadership, a Soviet delegation attended the latest annual meeting in Washington in September 1990. The members of the delegation, which was headed by Chairman of the Board of USSR Gosbank V.V. Gerashchenko, had the status of "special guests."

These were only the first steps. The process of the full-scale inclusion of the USSR in the IMF is certain to be complex and will probably take a long time. Today, direct official relations have essentially been established between the USSR and the IMF. Judging by all indications, the next step will be a formal application for IMF membership.

Structure, Capital, Evolution

The International Monetary Fund was established in 1944 at a UN monetary and financial conference in Bretton Woods (New Hampshire). The Articles of Agreement of the International Monetary Fund, which serve as its charter, were approved at that conference. The Fund has the status of a UN specialized agency and was intended to regulate monetary transactions between member states and extend loans to them in foreign currency. It serves effectively as the institutional basis of the international monetary system.

The highest governing body of the IMF is the Board of Governors, with each member country represented by a governor and an alternate; in most cases they are the finance ministers or heads of the central banks of their countries. They meet once a year. The Board of Governors delegates many of its powers to the Board of Executive Directors, permanently located in IMF headquarters in Washington. The Board of Executive Directors appoints a managing director, who then serves as its chairman and supervises the work of the IMF staff.

The IMF has the structure of a joint-stock company, and the ability of members to influence its activity therefore depends on their share of its capital resources. In accordance with this, voting is proportionate: Each member state has 250 votes and another vote for each 100,000 SDR¹ of its share of IMF capital resources. This gives the countries contributing the largest sums to the IMF the deciding vote in the management of IMF affairs.

The capital resources of the Fund consists of contributions from the member states. Each member country has a quota, determining its share of IMF capital resources and its ability to use these resources. The size of the quota is based on the economic influence and proportional significance of countries in the world economy. For this reason, the quotas are distributed unevenly. As a rule, the country pays 25 percent of its quota in reserve assets (SDR and the freely convertible currency of other members), and the balance in its own currency.

The addition of new members and the increases in quotas have resulted in the substantial growth of IMF capital resources since the time of its establishment. On 31 August 1990 they was equivalent to 90.1 billion SDR (124.9 billion dollars). The industrially developed countries accounted for 63.09 percent of the quotas (including the United States with 19.88 percent, Great Britain with 6.87 percent, the FRG with 5.99 percent, France with 4.97 percent, Japan with 4.69 percent, Canada with 3.26 percent, and Italy with 3.23 percent). The share of the 12 EEC countries combined was equivalent to 29.43 percent. All of the developing countries together had 36.91 percent of the IMF quotas.² This means that the United States and the EEC countries can veto major decisions requiring a maximum qualified majority (85 percent).

The latest, ninth general quota review began in March 1987. It culminated in a resolution passed by the Board of Governors in June 1990 (published 28 June), which envisages an increase of 50 percent in the member quotas. This will increase the capital resources of the Fund to approximately 135.2 billion SDR (around 180 billion dollars). The required official approval of the quota increase by member states is expected to take place before the end of 1991.

The activity of the IMF has undergone significant changes since its establishment. They are ultimately the result of the evolution of the world economic structure, and particularly of the United States' loss of its earlier dominant position in the West and the significant growth of the influence of Japan and the West European countries in world economic affairs. In connection with this, the United States lost its monopoly position in the control of IMF policy and must coordinate its line of behavior with its main partners. There has been a simultaneous increase in the influence of the Asian, African, and Latin American states defending their own interests.

By March 1991 the IMF had 155 members. The only CEMA countries not belonging to the IMF were Cuba and the Soviet Union (Mongolia became a member this February).

Credit Mechanism

The financial operations of the IMF are intended to give member states temporary assistance in surmounting balance-of-payment difficulties. A country needing some kind of foreign currency for payments for current operations must provide the Fund with assurances that the currency is necessary in connection with the state of its balance of payments, international liquid reserves, or a tendency toward a change in the level of these reserves. It will receive (or buy) the required currency or SDR in exchange for its own national currency. As a result of this operation, the Fund will increase the currency reserves of the country seeking the credit and reduce the currency reserves of other members or SDR by the amount received by the borrower state.

The access of members to IMF credit resources is limited: The total amount of currency in a country's assets should not exceed 200 percent of its quota (including 75 percent of the quota calculated for it when it joins the Fund). This means that the maximum amount of foreign currency the country can obtain from the IMF is equal to 125 percent of its quota. The first 25 percent of the quota is its reserve share. The acquisition of currency within these limits is not viewed as a credit operation in the strict sense of the term, but as the country's withdrawal of the foreign currency it deposited in the Fund when it joined. The foreign currency (100 percent of the quota) the member state can obtain over and above the reserve share is consequently divided into four credit shares.

The use of the first credit share can be accomplished in the form of the direct purchase of currency or in the conclusion of a reserve credit agreement with the IMF. In the first case the country will receive the entire sum requested soon after the request is approved by the Fund, and in the second it may spend the amount stipulated in the agreement at any time the agreement remains in force.

The allocation of sums to member states from the subsequent, so-called "upper credit shares" takes the form of "reserve credits" in almost all cases. The agreed sum is divided into portions which can only be obtained after set intervals in the term of the agreement. From the beginning of the 1950s to the middle of the 1970s the reserve credit agreements were concluded for a period of up to 1 year, but the increased balance-of-payment disparities in the middle of the 1970s and the need for a longer period of time to surmount them led to the extension of the reserve credit term to 3 years in 1977.

The IMF obligates the country applying for the credit to fulfill certain political-economic conditions, with the degree of their stringency rising constantly during the progression from the lower credit shares to higher ones. This is known as the principle of conditionality.

When the IMF receives a request for foreign currency from a member country, it analyzes the state of its economy and makes the loan conditional upon a program for the adaptation or "structural adjustment" of the economic mechanism. This, in the Fund's opinion, should restore the

equilibrium in the country's balance of payments and guarantee the timely repayment of its debt. These programs include measures pertaining to fiscal and banking policy, the price mechanism, foreign trade, and the international credit and monetary relations of members. In many cases they are calculated to be carried out within 12 months after the funds have been received, but the programs can cover a longer period—up to 3 years—if necessary.

Special criteria are used in monitoring—i.e., in observing the progress in carrying out the program drafted jointly with the IMF for the restructuring of the borrower country's economy—and progress reports are made on the implementation of the chosen policy during the reserve credit term. If the Fund should decide that the set criteria have not been reached and that the member country is consequently unable to carry out the "adjustment" program, it will stop extending the currency resources.

At the end of the period, the member country must conduct the opposite operation—buying back its national currency from the Fund by returning the SDR or foreign currency. As a rule, credit should be repaid within 3-5 years. In addition, the borrower is expected to buy back its excess currency as the state of its balance of payments improves and its currency reserves increase, and the Fund can obligate it to do this under these circumstances.

In addition to the customary procedure for extending credit to members in accordance with the credit share policy, various types of specific credit mechanisms have been established in the IMF. In 1974 the reserve share and credit shares were supplemented with an extended financing facility. Besides this, two other permanent credit mechanisms came into being for special purposes—the "compensatory financing facility" (dating back to 1963), which became the "compensatory and contingency financing facility" in 1988, and the "extended financing facility" (1969). In certain situations the IMF establishes temporary funds with money borrowed from various sources. The "supplementary financing facility" was established in 1977, for example, and it was succeeded in 1981 by the "policy of enlarged access." This mechanism is still in operation.

The formation of various special credit mechanisms considerably expanded the ability of members to obtain financial resources from the Fund. In 1990 the maximum amount of credit, including all of the credit mechanisms listed above, was 60 percent of the member's quota. With the addition of loans from the "structural adjustment facility," intended to extend financial assistance on preferential terms to the developing countries with the lowest per capita national income, the amount rises to 927 percent of the quota.³ After the 50-percent increase in member quotas goes into effect, however, the maximum amount they will be able to borrow from the IMF will probably be reduced.

Financial Operations

At first the IMF played a fairly modest role as a creditor, but its crediting operations were expanded considerably

throughout the 1970s, and to an even greater extent in the 1980s. Between 1947 and 1989 its members received monetary resources totaling 110.5 billion SDR or 141.6 billion dollars (at the average annual exchange rate for 1989).⁴ In addition to offering direct financial assistance, the Fund aids in the conclusion of financial agreements envisaging the extension of loans to members in conjunction with the governments of industrially developed countries, central banks, the Bank for International Settlements in Basel, the World Bank, and private commercial banks.

For more than the first decades of its existence, the IMF extended credit primarily to Western countries. The total credits between 1947 and 1974 amounted to 29.5 billion SDR. The industrially developed states received 64.8 percent of the total, including 26.6 percent for Great Britain, 12 percent for the United States, and 17.2 percent for Italy, France, and the FRG. All of the developing countries combined had to be content with only 34.7 percent of the total.⁵

Later the distribution of IMF credits changed considerably in favor of the developing world. The industrially developed Western states accounted for only 10.9 billion, or 13.5 percent, of the 80.9 billion SDR (103.8 billion dollars) extended by the Fund to members between 1975 and 1989, while the developing countries received 69.9 billion SDR, or 86.3 percent. Third World countries not producing and exporting oil were the recipients of 66.5 billion SDR (82.1 percent).⁶

The corrective measures recommended to the debtor countries for the improvement of their balance of payments, on which IMF credits are usually conditional, include the following:

- the reduction of government spending, including expenditures on public education, public health, pension security, and other social needs;

- increases in personal income tax;

- the elimination or reduction of government subsidies for food and consumer goods, which raises the prices of these goods;

- the restriction of the growth, or "freezing," of wages;

- the raising of interest rates and various other steps to restrict the amount of credit, including consumer credit;

- the devaluation of national currencies.

Depending on the specific situation, these methods are used in various combinations. Furthermore, the IMF allows the borrower country to decide whether the social price of these measures is acceptable and how the burden should be distributed among social strata.

The data cited above on the scales of IMF credit operations attest to the considerable enhancement of its role as an international credit and financial institution extending loans to cover balance-of-payment deficits. Its significance as a supranational center regulating the functioning of the domestic economies of borrower countries is also

increasing to some extent. This IMF activity is now concentrated mainly in the developing countries experiencing great economic difficulties and displaying an acute need for financial assistance.

Regulation of International Monetary Relations

The provisions concerning the regulation of the monetary mechanism and exchange rates are in Article IV of the IMF charter. It stipulates the obligation of each member country "to collaborate with the Fund and with other member countries to secure the existence of orderly monetary mechanisms and aid in the maintenance of a stable system of exchange rates."⁷ The countries are obligated "to avoid manipulating exchange rates or the international system in such a way as to impede the effective adjustment of the balance of payments or obtain unfair competitive advantages over other member countries."⁸

The IMF is expected to oversee the international monetary system to secure its effective operation, particularly "strict oversight of the exchange rate policy of member countries and the elaboration of special principles by which all member countries should be guided in conducting this policy."⁹ In 1977 the IMF Board of Executive Directors amplified this provision in a document on the oversight of exchange rate policy. It listed the basic aims and procedures by which member countries were to be guided in their monetary policy and by which the IMF was to be guided in its oversight in this sphere. According to this document, the member country should intervene in the functioning of the monetary market when necessary to counteract "disorders" in the market, particularly those arising from "disorganizing short-term fluctuations" in exchange rates; it does, however, have to "consider the interests of other member countries" during this process.¹⁰

The IMF oversees the economic and monetary policy of member countries primarily by means of annual consultations with these countries. They give the Fund a chance to obtain the information it needs, to conduct detailed analyses of the economic and financial situation in member countries and their policy in these spheres, and to determine the possible consequences of the interaction of national policies on the international level. The obligations of IMF members concerning the regulation of exchange rates are worded in extremely general and declarative terms. This leaves the countries considerable freedom to make autonomous decisions in this sphere.

The IMF charter also regulates the legal framework of monetary operations and the functioning of monetary markets. Article VIII stipulates the obligation of member countries not to impose limits on payments and transfers in current international operations without the consent of the Fund, not to practice discrimination in monetary matters, and not to resort to the use of multiple exchange rates. Monetary restrictions are permitted in only two cases:

1) They can be instituted or retained during the "transition period" (of no specified length) in states which have just joined the Fund;

2) The official announcement of a "shortage" of a particular currency by the Fund will authorize any member state to impose temporary limits on operations in the scarce currency after consultations with the Fund.¹¹

The IMF is constantly striving for the elimination of the monetary restrictions and multiple exchange rates of member countries. Special consultations with these countries are held annually for this purpose, but many developing states and the East European countries have not been able yet to establish the free convertibility of their currencies even in current operations, not to mention the movement of capital. Nevertheless, the number of IMF members which have officially assumed the obligations listed in Article VIII with regard to the elimination of monetary restrictions from current operations is constantly rising. Whereas the number in June 1978 was only 46—i.e., approximately a third of the total number of member states—there were already 68 of these countries (45 percent) by the middle of 1990.¹²

In summation, we could say that the IMF has affirmed its authority as the main agency regulating international monetary relations and as an important center of official foreign crediting. It has proved to be an organization capable of taking effective measures, which have been extremely successful in several cases, and it has accumulated a great deal of useful experience. Of course, the IMF, like any other international agency, is still an arena of competition between national economic and political interests. This is the reason for the need for a more effective way of comparing, considering, and reconciling these interests for the good of the entire world community.

Obviously—and this is an opinion shared by many Western economists and political analysts—the IMF still has room for improvement in its institutional structure and its policy objectives.

IMF and the Soviet Union

The Soviet Union took part in the Bretton Woods conference and in drafting the agreement on the IMF. Later, however, it did not ratify the agreement and did not become a full-fledged member of the world monetary system.

The Soviet leadership's present efforts to update the country's foreign economic strategy include steps toward gradual integration in world supranational macroeconomic mechanisms, one of which is the IMF. On 18 December last year at a regular briefing for journalists, V. Ignatenko, the head of the president's press office, said that the official position of the Government of the Soviet Union consisted in the continued development of cooperation with the Fund and gradual inclusion in its structure.¹³

The issue of the USSR's membership in the IMF has several important political, economic, and social aspects. Above all, the USSR will have to assume the commitments recorded in the Fund charter. One would obligate the USSR to provide the IMF with complete statistics on the state of its economy on a regular basis. Several of these

statistics are still being kept confidential in the USSR, however, and this seems to be an inexplicable anachronism in the atmosphere of democratization and glasnost. Besides this, the entire system of state statistics (the calculation of the GNP, national income, and several other major macroeconomic indicators) will have to be brought in line with the standard methods in today's world.

Obviously, now that the USSR plans to have an open economy in the near future and hopes to integrate it into the world economy, including the monetary sphere, it has to have an interest in the existence of international rules governing the functioning of foreign economic ties. If the country wants to be certain that its partners will comply with specific standards of behavior, it must also provide guarantees that it will observe comparable standards. The Soviet Union would also benefit from interaction with the IMF because it would be able to request the services of the Fund's highly qualified experts and make use of their experience.

The USSR's membership in the IMF would also entail substantial initial financial expenditures. Like other members, it would have to make a contribution. According to American economist R. Feinberg, the USSR quota would be equivalent to around 6 percent of the Fund's capital resources, which will amount to 10.4 billion dollars after the projected increase (in line with the average exchange rate of the dollar to the SDR in 1989). This means that it will cost the USSR around 3.5 billion dollars in hard currency and the equivalent of 8.5 billion dollars in Soviet rubles to join the IMF and the related World Bank.¹⁴

Under the conditions of the USSR's present economic and financial difficulties, the payment of this initial contribution to the IMF obviously presents a definite problem, but we must not forget that the contribution to the IMF in hard currency, which will become the "reserve share" of the quota, can automatically be withdrawn in exchange for rubles without any kind of preliminary conditions. As for the portion of the subscription that must be deposited in a USSR Gosbank account in the Fund's name, it is most likely to remain "frozen" almost permanently. This will continue until the ruble becomes a freely convertible currency. At the same time, IMF membership would allow the USSR to make use of sizable credits in hard currency, and some Western economists estimate that the Soviet economy now requires an injection of around 50 billion dollars.¹⁵

The Soviet Union's collaboration with the IMF in drafting an economic adjustment program, to be financed with Fund credits, could help us in carrying out profound reforms for the transition to a market-based economy. We must realize, however, that the corrective measures the Fund recommends as conditions for the extension of loans to its members requiring balance-of-payment adjustments are extremely severe, as we demonstrated above.

In light of all this, it is clear that it will be difficult for the Soviet Union to accept some of these conditions in the present atmosphere of increasingly severe social, political, and inter-ethnic conflicts within the country. We must

remember, however, that the IMF is only able to influence the economic policy of a member country if the country requests credit. For this reason, if the USSR intends to use the IMF's currency resources, it can compare the advantages and disadvantages of the Fund's recommendations in the sphere of economic policy and decide whether the social cost of these recommendations is acceptable.

The issue of the USSR's membership in the IMF also has another aspect—the West's attitude toward this process. Some people in the West are afraid that the USSR might be guided by ideological and political motives that might give its actions an obstructionist nature. Certain economic arguments have also been cited (and we must admit that there is definite cause for alarm). Because of this, the West, especially the United States, has not been ready to agree to the USSR's membership in the IMF until recently.

Now, however, there are signs that this approach is changing. President G. Bush of the United States suggested a "special relationship" for the USSR with the IMF and World Bank as an intermediate step. According to this plan, the Soviet Union would use Fund recommendations as a guide in carrying out its program of economic reform and would be able to request Fund experts for advice and technical assistance. Until the USSR is a full-fledged member of the IMF, however, it may not expect financial support from the Fund.

It is clear that the question of the USSR's membership in the IMF will ultimately be decided less by purely economic considerations than by global political factors. Two processes would seem to be responsible for this.

First of all, there is the deideologization and fundamental improvement of international relations under the influence of the new political thinking and the elimination of mutual suspicion between the East and the West. Second, there is the fundamental restructuring of the Soviet economy through the establishment of market relations. It should coordinate the economic mechanism of the USSR with the market-based economic systems of the Western countries. Finally, the inclusion of the USSR in this organization would give it the universal character it lacks.

Footnotes

1. SDR—the English abbreviation of Special Drawing Rights—are collectively formed credit reserves. They are intended to maintain the equilibrium of balances of payments, supplement the official currency reserves of the countries in this system, and serve as the unit of settlement with the IMF. SDR are used in IMF operations and statistics as an accounting unit representing the average value of the five leading Western currencies. The SDR mechanism was instituted at the beginning of 1970.

2. INTERNATIONAL FINANCIAL STATISTICS, 1990, No 10, pp 19, 24.

3. "IMF Survey, August 1990. Supplement on the Fund," p 11.

4. INTERNATIONAL FINANCIAL STATISTICS, 1990, No 2, pp 18, 30-31.

5. Calculated according to data in "IMF. International Financial Statistics Yearbook 1989," pp 22-25.

6. Ibid., pp 22-25; INTERNATIONAL FINANCIAL STATISTICS, 1990, No 2, pp 18, 30-31.

7. "Articles of Agreement of the International Monetary Fund," Washington, 1985, p 6.

8. Ibid., p 7.

9. Ibid., p 8.

10. "IMF. Annual Report of the Executive Directors for the Fiscal Year Ended 30 April 1977," p 108.

11. "Articles of Agreement of the International Monetary Fund," pp 27-30, 48-49.

12. "IMF. Twenty-Ninth Annual Report on Exchange Restrictions," Washington, 1978, p 6; "Annual Report of Executive Board for the Financial Year Ended 30 April 1990," p 86.

13. IZVESTIYA, 19 December 1990.

14. R. Feinberg, "The Soviet Union and the Bretton Woods Institutions: Risks and Rewards of Membership," Public Policy Papers, Institute for East-West Security Studies, New York, 1989, pp 7-8.

15. MANAGER, 1990, No 11, p 6.

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[Text] April

4—Five American senators held a press conference in the Latvian Supreme Soviet at the end of their visit to the republic. Chairman D. Boren of the Senate Select Committee on Intelligence, the head of the delegation, underscored the main purpose of the visit—to support the struggle of the Baltic states for independence.

12—USSR Minister of Foreign Affairs and member of the Security Council A.A. Bessmertnykh received prominent American politician and former U.S. Ambassador to the Soviet Union T. Watson and Director M. Harrison of the Brown University International Research Center. They discussed aspects of Soviet-American relations, current international issues, and the state of affairs in the sphere of arms reduction, particularly nuclear arms.

13—President M.S. Gorbachev of the USSR sent a message to the international symposium at Stanford University which said, in part: "I want to take this opportunity to

commend the start of Soviet-American ecological cooperation and the agreement on the natural ethnic park on both sides of the Bering Strait."

22-30—The first visit to the United States by an official Russian delegation in the history of Soviet-American relations was initiated by the National Governors Association. During the trip, Chairman of the RSFSR Council of Ministers I.S. Silayev discussed the development of direct economic relations between Russia and the United States. An agreement was signed on friendship and partnership between the RSFSR and the State of California. The two sides pledged to promote trade, cooperation in industrial and agricultural production, and the formation of mutually beneficial joint ventures and to develop cultural and tourist exchanges.

23—Vice President G.I. Yanayev of the USSR received W. Reilly, administrator of the U.S. Environmental Protection Agency. They discussed a broad range of ecological problems and Soviet-American and international cooperation in environmental protection.

A.A. Bessmertnykh received U.S. Ambassador to the USSR J. Matlock at his request.

25—U.S. Secretary of State J. Baker had a meeting with A.A. Bessmertnykh in Kislovodsk. They reached an agreement on a regional peace conference on the Middle East under USSR and U.S. auspices. They also discussed a summit meeting, but did not make any final decisions. They were also unable to surmount differences of opinion on the agreement on the reduction of conventional arms in Europe.

26—A relief program set up by the Center for Soviet-American Dialogue to help the victims of the accident in Chernobyl was announced at a press conference in the Soviet Committee for the Defense of Peace. Food will be distributed each month to power plant personnel and evacuated families. American specialists in laser surgery and marrow transplants will work in the Soviet Union within the framework of medical aid programs.

28—A Soviet IL-62 passenger airliner landed at the Miami International Airport (Florida). It marked the beginning of new regular flights between this city and Moscow. The new route is the result of increased tourism and business and personal travel. There will be two flights a week between Moscow and Miami with a stopover in Shannon (Ireland).

29—Member of the CPSU Central Committee Politburo and Editor-in-Chief of PRAVDA I.T. Florov had a meeting with a group of prominent public figures and businessmen from the United States in the PRAVDA editorial offices. The guests included former USIA Director F. Shakespeare, President H. Pirchner of the American Council on Foreign Policy, A. Taylor, the head of a large law firm, and others.

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Publication Data

914K0024F Moscow SSHA: *EKONOMIKA, POLITIKA, IDEOLOGIYA* in Russian No 6, Jun 91 (signed to press 13 Jun 91) p 128

[Text]

English title: USA: ECONOMICS, POLITICS, IDEOLOGY

Russian title: SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA

Editor: A.V. Nikiforov

Publishing house: Izdatelstvo Nauka

Place of publication: Moscow

Date of publication: June 1991

Signed to press: 13 June 1991

Copies: 17,304

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